February 1, 2022

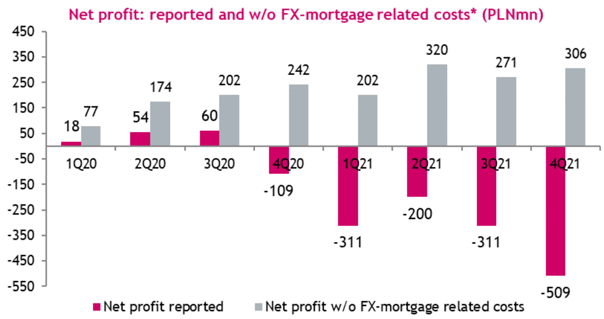
Attachment to the current report no. 5/2022

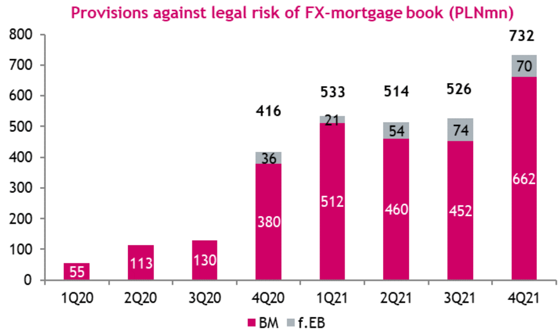
PRELIMINARY NON-AUDITED RESULTS OF BANK MILLENNIUM S.A. CAPITAL GROUP IN 4Q21/2021

FINANCIAL RESULTS IN BRIEF

4Q21 was a good quarter for Bank Millennium S.A. Capital Group's (the 'Bank', 'BM Group', 'Group') in operating terms. Adjusted quarterly revenues were up 10% y/y (2021: up 3% y/y), while opex (excluding charges for Banking Guarantee Fund ('BFG') and legal costs) was flat y/y (2021: down 7% y/y). Core income was particularly strong in the period with the 13% q/q increase taking the y/y growth of FY2021 ('2021') core revenues to 6% from 2% in 9M21 and -1% in 1H21. NII, the main driver, increased 15% q/q to above pre-pandemic levels, while full year 2021 NII grew 5% y/y following the 1% y/y contraction in 9M21. This strong performance was driven by a combination of higher interest rates (average 3M WIBOR of 1.53% in 4Q21 compared to 0.22% in 3Q21) and solid 3% q/q growth of loans (ex-FX mortgage portfolio). Record high disbursements of PLN mortgages (4Q21: PLN2.8 billion, up 33% y/y, 2021: PLN9.8bn, up 46% y/y) and much accelerated originations in leasing (4Q21: PLN1.1 billion, up 39% y/y, 2021: PLN3.9 billion, up 57% y/y) were the key contributors. In 2021 overall, the Bank's market share in originations of mortgages reached 12.5% (2020: 12.2%), putting us at #3 position on the market (2020: #4).

Unfortunately, as in the recent reporting periods, substantial provisions against legal risk related to FX-mortgages ('FX-mortgage provisions') burdened both 4Q21 and 2021 results. PLN 732 million charge in 4Q21 and PLN 2,305 million in 2021 overall (PLN662 million and PLN2,086 million respectively attributable to FX-mortgages originated by the Bank) resulted in consolidated net loss of PLN509 million in 4Q21 and PLN1,332million net loss in 2021 compared to net profit of PLN23 million in FY2020. Additionally, in 4Q21 and in 2021 overall, the Bank incurred costs related to amicable solutions (i.a. conversions to PLN mortgages, pre-payments, early repayments) agreed on negotiated terms with its FX-mortgage borrowers ('amicable conversions'). In 2021 overall, these costs totalled PLN364 million (pre-tax), while in 4Q21 alone PLN144 million. Excluding these (and legal costs related to FX-mortgages – 'legal costs'), the Group would post 2021 net profit of PLN1,097 million (4Q21: PLN306 million) vs. adjusted 2020 net profit of PLN695 million), indicating that the Group has successfully weathered the direct and indirect impacts of the pandemic.





* adjusted for provisions against legal risk, legal costs related to FX-mortgages and costs of amicable conversions

Substantial extraordinary P&L items

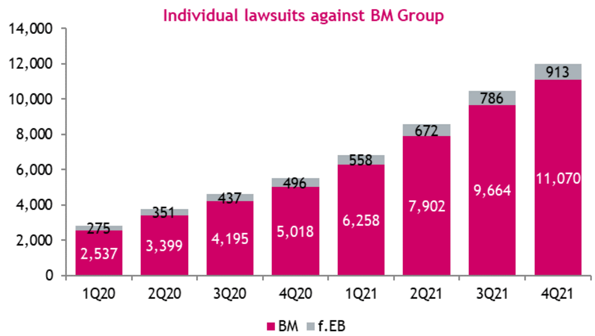
Apart from the above-mentioned FX-provisions and legal/conversion costs, 4Q21 brought a positive revaluation of Visa shares (PLN72 million), while other operating costs were inflated by PLN103 million provision against a corporate court case.

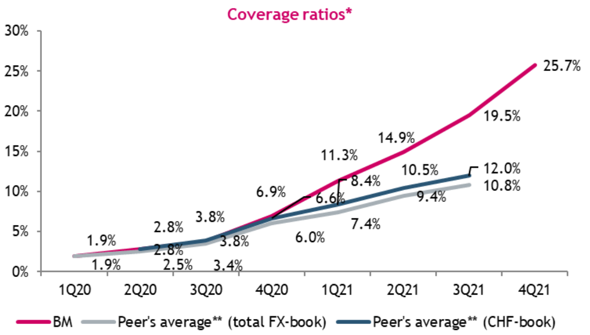
Legal risk provision against FX-mortgage loans

The increase in the abovementioned FX-mortgage provisions resulted from more conservative inputs into the Bank's provisioning methodology, reflecting, *inter alia*, a more challenging environment. In 4Q21, inflow of court claims, although lower than in 3Q21, remained relatively high. The number of individual lawsuits related to loan agreements originated by the Bank reached 11,070 at end of

December 2021 vs. 9,664 at the end of September 2021. At the same time, negative court verdicts for banks continued (details regarding litigations against the BM Group can be found further in the report and in full year 2021 report to be published on February 21, 2022).

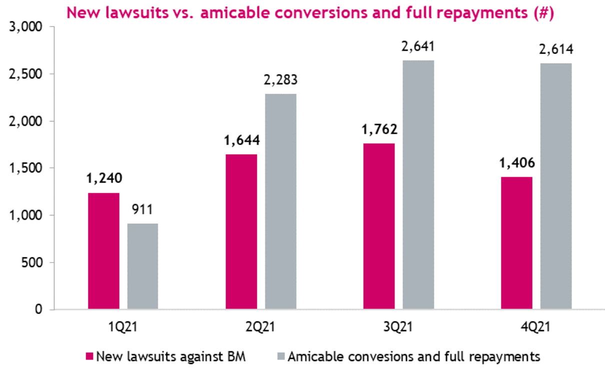
At the end of December 2021, the balance of provisions for the portfolio originated by the Bank stood at PLN3,079 million (end of September 2021: PLN2,375 million), an equivalent of 25.7% of the outstanding FX-mortgage grossed-up book (end of September 2021: 19.5%).

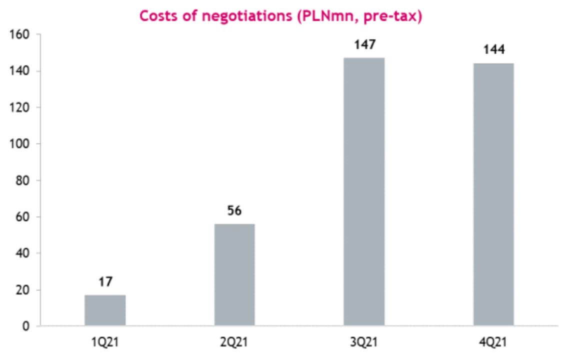




* Legal risk provisions/gross FX mortgage book (ex-EB portfolio in case of BM), ** average of nine largest banks listed at WSE w/o PKO BP's 4Q20 provisions for 'KNF conversions'

At the same time, the Bank continues to be open to its customers in order to reach amicable solutions regarding FX-mortgages on negotiated terms. As a result of these negotiations and other natural drivers, in 2021 the number of active FX-mortgage loans decreased by over 10,000, compared to over 57,800 active loans agreements at the end of 2020. In recent quarters (and in 2021 overall), the reduction of the number of active FX-mortgage loans was higher than the inflow of new individual court cases against the Bank.





Presentational changes in P&L and balance sheet

The Bank's recent financial performance has been significantly affected by the costs related to the management of the legacy portfolio of FX-mortgages. To isolate these costs and other P&L items related to this portfolio, a new segment - 'FX mortgage' - was spined-off from the 'Retail Segment' for reporting purposes. The new segment includes loans separated based on active FX mortgage contracts for a given reporting period and will apply to portfolios of retail mortgages originated in Bank Millennium and former Euro Bank in foreign currencies. More details will be presented in the full year 2021 report, due to be published on February 21, 2022.

Main financial and business achievements of the Group

4Q21 brought solid growth in core revenues with NII, in particular, up by spectacular 15% q/q to above pre-pandemic levels. This P&L line partially benefitted from the 165bps NBP's base rate increase during the period (average 3M WIBOR in 4Q21 increased 131bps q/q) but the good 3% q/q growth of loan book ex-FX mortgages also had a contribution. In 2021 overall, NII posted 5% y/y growth, following the 1% y/y contraction in 9M21. Fees were up by a healthy 7% q/q in 4Q21 (the best quarter in the last two years) on a combination of good growth in lending, card, insurance and asset management lines. 2021 overall brought 11% y/y growth of net fees.

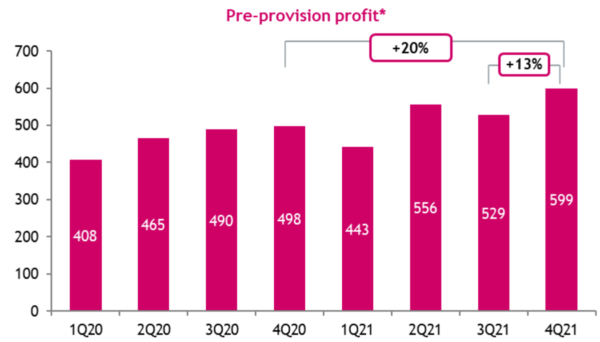
4Q21 pre-provision profit adjusted for costs related to FX-mortgage portfolio (costs of amicable conversions, legal costs and netting-off EB's FX-mortgage provisions) amounted to record PLN599 million, up 13% q/q and up 20% y/y, despite sizeable non-recurrent items (positive revaluation of Visa shares and provision against a corporate court case). 2021 adjusted pre-provision profit totalled PLN2,127 million and was up 14% y/y.

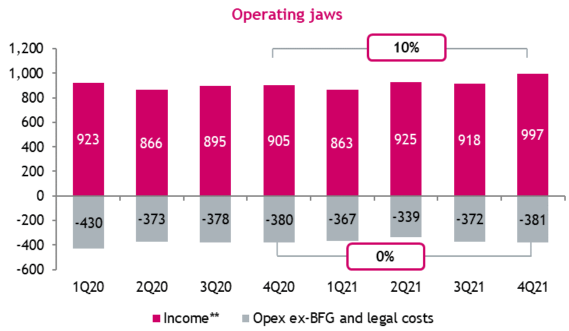
BM Group: adjusted results (PLNmn)

	1Q20	2Q20	3Q20	4Q20	1Q21	2Q21	3Q21	4Q21	y/y	q/q	2021	y/y
NII*	690	640	629	625	622	655	669	767	23%	15%	2,713	5%
Net fees	195	179	180	193	205	209	202	215	12%	7%	831	11%
Other income**	39	47	87	87	36	61	48	15	-83%	-68%	160	-39%
Total income**	**923**	**866**	**895**	**905**	**863**	**925**	**918**	**997**	**10%**	**9%**	**3,703**	**3%**
Opex w/o BFG and FX-mortgage legal costs	-430	-373	-378	-380	-367	-339	-372	-381	0%	2%	-1,458	-7%
BFG	-85	-28	-27	-27	-53	-30	-17	-17	-35%	0%	-118	-29%
Pre-provision profit	**408**	**465**	**490**	**498**	**443**	**556**	**529**	**599**	**20%**	**13%**	**2,127**	**14%**
Risk charge***	-197	-166	-150	-108	-76	-57	-83	-82	-24%	-2%	-299	-52%
FX-mortgage provisions w/o EB	-55	-113	-130	-380	-512	-460	-452	-662	74%	46%	-2,086	208%
Net profit reported	**18**	**54**	**60**	**-109**	**-311**	**-200**	**-311**	**-509**	367%	63%	**-1,332**	**n/a**
Net profit w/o FX mortgage related costs	**77**	**174**	**202**	**242**	**202**	**320**	**271**	**306**	**26%**	**13%**	**1,098**	**58%**

(*) NII including swap income from derivatives, (**) w/o result on FV portfolio, cost of amicable solutions for FX-mortgage borrowers and netting-off EB's FX-mortgage provisions, (***) incl. result on FV portfolio, impairment losses on non-financial assets, modifications

As in the previous quarters, the improvement was driven by positive operating jaws. 4Q21 revenues were up 10% y/y (2021: up 3% y/y), while opex (ex-BFG and legal costs) was flat y/y (2021: down 7% y/y). The accelerating growth in core income (4Q21: +20% y/y vs. 8% in 3Q21, 5% in 2Q21 and -6% in 1Q21) was the driver behind the growth in total adjusted revenues as non-core income dropped in both 4Q21 (down 92% y/y) and in 2021 overall (down 24% y/y). Subsequent quarters are likely to bring a continuation of this trend as the full impact of higher interest rates will start to feed through the NII line. The very good performance of the adjusted opex ex-BFG (flat y/y in 4Q21 and down 7% y/y in 2021) stemmed from savings in both staff costs (2021: -5% y/y) and non-staff costs (2021: -3% y/y). BFG charges which in 2021 overall were 29% lower than in the same period last year provided an additional support. Following quarters may not bring the same positive dynamics though given the inflationary pressures on costs and as, media report, likely substantial increase of BFG charges in 2022.

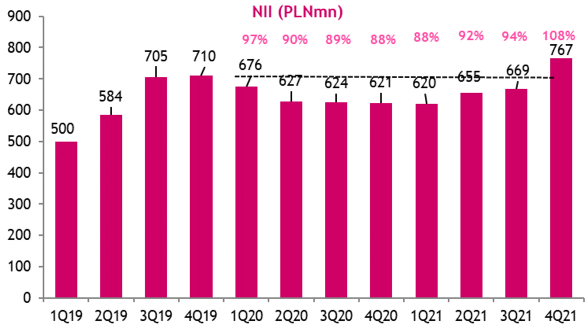


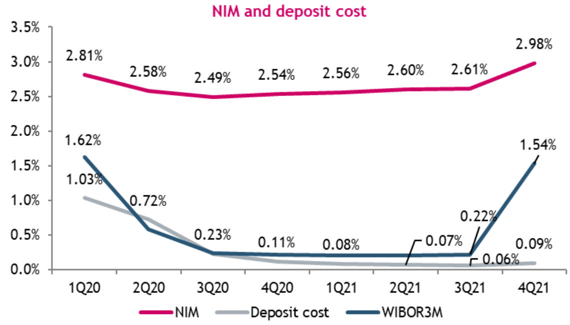


* Adjusted for provisions against credit risk, Covid-19, result on FV portfolio, impairment losses on non-financial assets, modifications, and FX-mortgage portfolio related costs; ** Income adjusted for result on FV portfolio, costs of amicable solutions for FX-mortgage borrowers, netting-off of legal risk provisions on FX-mortgages of f.EB

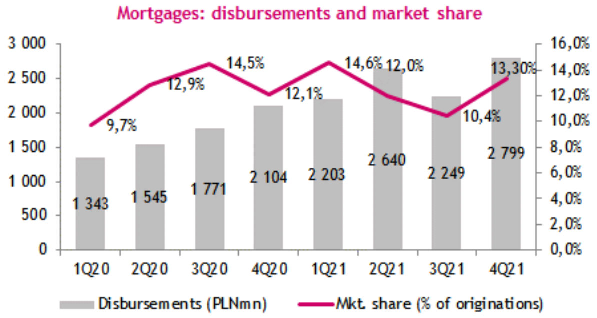
The key developments in the last twelve months that drove the y/y improvement of the results and which, we believe, are particularly worth highlighting are as follows:

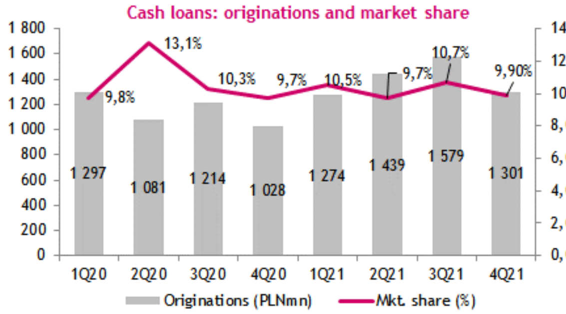
- **much accelerated recovery of NII** with 4Q21 bringing 15% q/q growth to 108% of the previous record high NII of 4Q19;
- **accelerated improvement of quarterly NIM** (298bps in 4Q21 from 261bps in 3Q21, to just 1bp below the 3Q19 peak of 299bps and 49bps up from the low of 249bps in 3Q20);



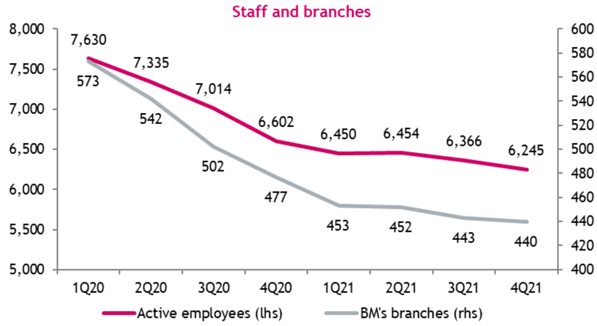


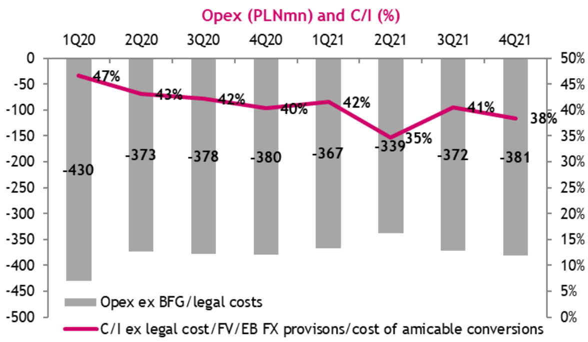
- **above-market loan growth (net loans +7% y/y) despite strong reduction of the FX-mortgage portfolio;** solid originations of retail loans played a key role - disbursements of mortgages in 4Q21 reached a new all time high of PLN2.8bn, up 33% y/y (2021: PLN9.8bn, up 46% y/y) with market share in originations of 13.3% vs. 12.2% in 4Q20 (2021: 12.5% vs. 12.2% in 2020) while 4Q21 origination of cash loans of PLN1.3bn, though down q/q, remained well above this in the respective period of last year (2021: PLN5.6bn, up 21% y/y); on a separate count our gross FX-mortgage book contracted 28% y/y due to a combination of repayments, provisioning (in line with IFRS9 most of legal risk provisions are booked against gross value of loans under court proceedings) and amicable conversions (pure gross FX-mortgages ex-EB in CHF down 17% y/y); as a result, the share of FX-mortgages in total gross loans decreased to 12.4% (BM originated: 11.4%) from 18.3% (17.0%) at YE20;





- **improving cost efficiency** owing to a combination of a steady increase in the digitalisation of our business and relations with clients with strong cost response to revenue pressures earlier in the year; falling headcount (number of active employees down 357 or 5% since YE20), ongoing optimisation of our physical distribution network (own branches down by 37 units or 8% in the last twelve months) complimented the increasing share of digital services (digital customers: nearly 2.3 million, up 10% y/y, number of active mobile customers: 1.9 million, up 16% y/y); cost optimisation initiatives not only resulted nominal reduction of opex but also translated into much improved cost efficiency; reported C/I ratio ticked down to 47.0% in 4Q21 from 45.9% in the same period last year but C/I ratio excluding BFG, FV portfolio, costs of amicable conversions offered to FX-mortgage borrowers and netting-off of FX-mortgage provisions on f.EB book eased y/y to 38%;





- **stable loan book quality** resulting in a low cost of risk (39bps in 4Q21 vs. 55bps in 4Q20, 2021: 37bps vs. 2020: 83bps) with positive underlying trends in quality of both retail and corporate books and continued NPL disposals (in 4Q21 positive pre-tax impact on risk charge line of PLN30mn); NPL ratio ticked down to below 4.4% at the end of December 2021 from nearly 5.0% the year before;

- **customer deposits were up in the quarter** (and up 12% y/y) with corporate ones up 1% q/q and retail ones up 2%; the liquidity of the Bank remained very comfortable with L/D ratio at 86.0%;

- **capital ratios fell somewhat in the quarter** (Group TCR: 17.1%/T1: 14.0% vs. 18.2%/15.1% respectively at the end Sepember'21) as the drop of equity outweighed the drop of RWAs;

- **AuM of Millennium TFI and third party funds combined dropped 6% q/q** to just over PLN8.9 billion with y/y growth at 6%.

Share in key market segments

Market shares

	Total loans	Retail loans	Total deposits	Quarterly card spending (*)	Leasing production (*)
December 2021	6.1%	8.2%	5.5%	8.0%	5.4%
December 2020	6.1%	8.0%	5.3%	8.0%	4.5%

(*) 3Q21/3Q20 data

LEGAL RISK RELATED TO FX-MORTGAGES

On December 31, 2021, the Bank had 11,070 loan agreements and additionally 913 loan agreements from former Euro Bank (94% loans agreements before the Court of first instance and 6% loans agreements before the court of second instance) under individual ongoing litigations (excluding claims submitted by the bank against clients i.e. debt collection cases) concerning indexation clauses of FX mortgage loans submitted to the courts with the total value of claims filed by the plaintiffs amounting to PLN 1,512 million and CHF 121 million (Bank Millennium portfolio: PLN 1,392 million and CHF 119 million and former Euro Bank portfolio: PLN 120 million and CHF 2 million).

In 2021 the Bank created PLN 2,087 million provisions and PLN 219 million for former Euro Bank originated portfolio. The balance of provisions for the Bank Millennium portfolio at the end of December 2021 was at the level of PLN 3,079 million, and PLN 254 million for former Euro Bank originated portfolio.

The Bank is open to negotiate case by case favourable conditions for early repayment or conversion of loans to PLN. As a result of these negotiations the number of active FX mortgage loans decreased by 8,449 (including 69 confirmed in court) in 2021 compared to over 57,800 active loans agreements at the end of 2020. Cost incurred in conjunctions with these negotiations totalled PLN 364.3 million in 2021 and is presented mainly in 'Result on exchange differences' in the profit and loss statement.

More details will be available in full year 2021 report.

MREL REQUIREMENTS

On November 18, 2021, the Bank received a letter from the Banking Guarantee Fund ('BFG') regarding the joint decision of the resolution authorities, i.e. the Single Resolution Board and BFG obliging the Bank to meet the communicated MREL (minimum requirement for own funds and eligible liabilities) requirements (details here: Current report on MREL requirements).

Pursuant to the above decision, at the consolidated level the Bank is obliged to meet by December 31, 2023, the minimum MRELtrea requirement of 21.41% and MRELtem of 5.91%. At the individual level, the Bank is obliged the requirements of 21.13% and 5.88% respectively.

Additionally, the above-mentioned decision sets the path to achieve the target MREL level. As a part of mid-term objectives, YE21 targets were set for the Bank. The Bank is still to meet these due to the net loss booked in 2021 (higher-than-initially planned provisions against legal risk related to FX-mortgage portfolio) and the fact that an issue of senior non-preferred bonds on the Polish market initially planned for 4Q21 was not possible to execute due to a gap in the Polish bond law. Due to this fact, the Bank decided to alternatively prepare and launch a new EMTN programme (details here: Current report on EMTN programme) that will allow the international issue of senior non-preferred bonds, to be executed in the first half of 2022.

BFG informed that the presented levels were determined based on the consolidated data as on December 31, 2019, and that in each subsequent calendar year, the BFG will update the target MREL level.

GROUP PROFIT AND LOSS ACCOUNT

Group's operating income *(PLN million)*	2021	2020	Change y/y	4Q21	3Q21	Change q/q
Net interest income	2 713.1	2 583.1	5.0%	767.1	668.9	14.7%
Net commission income	830.6	746.1	11.3%	215.0	201.6	6.6%
Core income	3 543.8	3 329.1	6.4%	982.1	870.4	12.8%
Other net non-interest income*	14.4	248.7	-94.2%	-58.9	-24.9	-
Total operating income *	3 558.1	3 577.8	-0.5%	923.1	845.6	9.2%

(*) Without fair value adjustment of credit portfolio (PLN39.9mn in 2021 and PLN-42.9mn in 2020), which is included in the cost of risk line

Net interest income in 2021 reached PLN2,713mn and increased by 5% y/y supported by accelerated quarterly growth (PLN767mn in 4Q21, +15% q/q) and strengthening the already positive quarterly trend in 2021.

The three interest rate hikes by Monetary Policy Council in October, November and December 2021 (base rate increased from 0.1% to 1.75%, i.e by 165 bps) was an additional help for the Group to partly offset the negative impact of interest rates cuts in 2020 (down 140 basis points in March through May 2020) after the Group managed to minimise this impact during the first three quarters of the reported year.

Net interest margin (over average interest earning assets) (NIM) in 2021 reached 2.70% and was 9 basis points higher compared to 2020. Similarly to net interest income, the quarterly improvement of NIM can be observed year to date. 4Q21 NIM jumped to 2.98%, i.e. was higher by 37 basis points compared to 3Q21 (2.61%) and 49bps above the lowest level (3Q20) after rates cuts by the MPC.

Net commission income in 2021 amounted to PLN831mn, growing 11% vs. 2020 financial year. The main source of the improvement was growing commissions from banking transactions (accounts, loans and cards) supported by fees on deposits. Fees on mutual funds also increased year-on-year. Net commission income in 4Q21 increased remarkably by 6% q/q.

Core income, defined as a combination of net interest and net commission income, reached PLN3,544mn in 2021 showing 6% growth compared to the previous year (substantial growth in 4Q21: +13% q/q).

Other non-interest income, which comprises FX result, results on financial assets and liabilities (without interest margin on derivatives and fair value adjustment on credit portfolio) and net other operating income and costs, amounted to PLN14mn in 2021 and decreased strongly vs. the previous year. The negative items were first of all the costs related to amicable settlements negotiated with FX mortgage borrowers (PLN-356mn), but also the cost resulting from a negative for the Bank court decision regarding a corporate client claim in the material amount of PLN103mn reported in 4Q21. On the other hand, in 2021 other operating income was supported by some compensation of provisions for FX mortgage book, resulting from indemnity and guarantees clauses referring to the portfolio of former Euro Bank and positive valuation of shares in VISA (PLN72mn in 4Q21).

Total operating income of the Group reached PLN3,558mn in 2021 and was slightly lower (-1%) than in 2020 due to lower 'other non-interest income' result.

Total costs amounted to PLN1,642mn in 2021 translating into 6% decrease vs. 2020 financial year, mainly due to administrative costs directly related to Euro Bank acquisition, merger and integration process incurred in 2020 (PLN66mn in 2020, of which PLN41.4mn for staff restructuring) and lower contribution to Banking Guarantee Fund (BFG) funds. Total costs excluding BFG fees and integration stayed flat vs. the previous year.

Operating costs *(PLNmn)*	2021	2020	Change y/y	4Q21	3Q21	Change q/q
Personnel costs	(815.3)	(856.3)	-4.8%	(202.0)	(202.3)	-0.1%
Other administrative costs *	(827.0)	(896.5)	-7.8%	(232.1)	(200.0)	16.0%
of which Banking Guarantee Fund (BFG) fees	*(118.2)*	*(167.2)*	*-29.3%*	*(17.5)*	*(17.4)*	*0.5%*
Total operating costs	(1 642.3)	(1 752.8)	-6.3%	(434.1)	(402.3)	7.9%
*of which Euro Bank integration costs ***	*0.0*	*(66.1)*	-	*0.0*	*0.0*	-
Total costs without BFG	*(1 524.1)*	*(1 585.6)*	-3.9%	*(416.6)*	*(384.9)*	*8.2%*
*Total costs without integration costs ***	*(1 642.3)*	*(1 685.0)*	-2.5%	*(434.1)*	*(402.3)*	*7.9%*
*Total costs without integrat. costs and BFG ***	*(1 524.1)*	*(1 517.8)*	*0.4%*	*(416.6)*	*(384.9)*	*8.2%*
Cost/income - reported	46.2%	49.0%	-2.8 pp	47.0%	47.6%	-0.6 pp
*Cost/income - adjusted ****	*42.7%*	*45.8%*	-3.1 pp	*41.5%*	*43.7%*	-2.2 pp

(*) including depreciation

(**) additional administrative costs directly related to Euro Bank acquisition, merger and integration processes

(***) with equal distribution of BFG resolution fee through the year, without, one-off income and without integration costs

Personnel costs amounted to PLN815mn and decreased by 5% y/y (0% q/q). After incorporating employees coming from Euro Bank (2.4 thousand FTEs in May 2019) and growing the total number of FTEs above 8.5 thousand the Group gradually reduced its personnel to 6,942 FTEs at the end of December 2021 and in annual terms it reduced 550 FTEs (-7% y/y). Without employees absent due to long leaves ('active FTEs'), the headcount was much lower, i.e. at 6,245 staff. Without allocated costs resulting from integration and restructuring in 2020, the personnel costs stayed at similar level as in 2020.

Employment *(FTEs)*	31.12.2021	31.12.2020	Change y/y	30.09.2021	Change q/q
Bank Millennium S.A.	6 598	7 164	-7.9%	6 696	-1.5%
Subsidiaries	345	329	4.8%	339	1.6%
Total Bank Millennium Group	6 942	7 493	-7.3%	7 035	-1.3%
Total BM Group (active* FTEs)	6 245	6 602	-5.4%	6 366	-1.9%

(*) active FTEs denote employees not on long-term leaves

Other administrative costs (including depreciation) reached PLN827mn in 2021 and decreased by 8% y/y but grew +16% q/q due to visibly higher costs of marketing and promotion as well as legal and advisory services in 4Q21. The costs without BFG and integration costs increased by 1% y/y. Euro Bank acquisition resulted in an initial very strong increase in the number of outlets which subsequently saw a reduction in line with the Bank's branch network optimization policy accelerated by the changes resulting from the pandemic. At the end of December 2019, the total number of branches (including Euro Bank) was 830 and has since been reduced (mostly Bank's own branches) to 655 outlets at the end of December 2021 (annual reduction of 47 outlets).

Cost-to-income ratio for 2021 amounted to 46.2% and was lower by 2.8 percentage points vs. the level for 2020 (49%). Cost-to-income ratio without extraordinary items mentioned above, reached 42.7% in 2021 and was 3.1 percentage points lower compared to the 2020 level.

Net profit *(PLNmn)*	2021	2020	Change y/y	4Q21	3Q21	Change q/q
Operating income	3 558.1	3 577.8	-0.5%	923.1	845.6	9.2%
Operating costs *	(1 642.3)	(1 752.8)	-6.3%	(434.1)	(402.3)	7.9%
Impairment provisions and other cost of risk **	(299.0)	(621.3)	-51.9%	(82.0)	(83.5)	-1.7%
- of which Covid-19 risk related provision	0.0	(133.3)	-	0.0	0.0	-
FX legal risk related provision	(2 305.2)	(713.6)	223.0%	(732.0)	(526.1)	39.1%
Banking tax	(312.6)	(279.1)	12.0%	(82.0)	(78.6)	4.3%
Pre-income tax profit	(1 000.9)	210.9	-	(407.1)	(244.9)	-
Income tax	(330.9)	(188.1)	75.9%	(101.8)	(66.4)	53.5%
Net profit - reported	(1 331.9)	22.8	-	(508.9)	(311.3)	-
Net profit - adjusted*	1 110.0	768.1	44.5%	305.8	258.1	18.5%

(*) without impairment provisions for financial and non-financial assets
(**) including fair value adjustment on loans (PLN39.9mn in 2021 and PLN-42.9mn in 2020) and loans modification effect (PLN-12.8mn in 2021 and PLN-13.6mn in 2020)
(***) without extraordinary items, i.e. provisions for FX mortgage legal risk, costs of amicable settlements with FX-mortgage borrowers, legal costs related to FX-mortgages and with linear distribution of BFG resolution fund fee; in 2020 additionally without Euro Bank integration costs and provisions for the return of commissions from loans repaid earlier

Total cost of risk, which comprised net impairment provisions, fair value adjustment (of a part of credit portfolio) and result on modifications, bore by the Group amounted to PLN299mn in 2021 and was 52% lower than in 2020. The higher base level of provisions from 2020 had resulted from additional provisions for risk related to COVID-19 impact in 2020 (amounting to PLN133mn) as well as changes in the risk model in the retail segment with introduction of more conservative default definition. Total provisions for 4Q21 amounted to PLN82mn and were slightly lower than in the previous quarter.

Risk charges for retail segment in 2021 stood at PLN290mn, while for the corporate segment and other they amounted to PLN9mn. In relative terms, the cost of risk (i.e. net charges to average gross loans) for 2021 reached 37 basis points compared to 83 basis points in 2020.

In 2021, the Bank sold portfolios of consumer NPLs. The transactions generated PLN57mn positive pre-tax result.

Additionally, in 2021 the Bank continued to create provisions for legal risk related to FX-mortgage portfolio. These were a significant item in P&L statement, reaching PLN2,305mn (PLN2,086mn excluding loans generated by former Euro Bank as they are subject to indemnity clauses and guarantees from Societe Generale). The balance of provisions increased to PLN3,333mn or PLN3,079mn excluding loans originated by Euro Bank, the latter being an equivalent of 25.7% of the FX-mortgage portfolio originated by Bank Millennium.

Pre-income tax result in 2021 was negative and amounted to PLN1,001mn (PLN407mn loss in 4Q21). This was mostly the result of the above-mentioned high FX-mortgage provisions as the pre-provision profit amounted to PLN1,916mn and was up 5% y/y. In addition to provisions, banking tax had significant impact on the value of losses decreasing the operating result by PLN313mn.

In 2021 the Group reported net loss of PLN1,332mn (PLN509mn loss in 4Q21). The net loss was substantially higher that the pre-tax loss due to negative impact of corporate income tax in the amount of PLN 331mn. Adjusted for the abovementioned extraordinary items (i.a. FX-mortgage related costs) the Group would achieve the net profit of PLN1,110mn in 2021, which is 45% higher compared to adjusted 2020 net profit of PLN768mn.

Loans and advances to clients

Total **net loans** of Bank Millennium Group reached PLN78,603mn as at the end of December 2021 and grew 7% y/y (+2% q/q). The growth of loans without foreign currency mortgage portfolio was visibly higher, at 15% y/y. FX mortgage loans net of provisions decreased visibly during the last twelve months (down 28%) and the share of FX mortgage loans (excluding these taken over with Euro Bank) in total gross loans has dropped substantially during the year to 11.4% on 31 December 2021 from 17% a year ago.

The net value of loans to households amounted to PLN59,546mn as at the end of December 2021, showing a growth of 8% y/y (+2% q/q). Within this line PLN mortgages grew strongly by 29% y/y while growth rate of consumer loans slowed down to 4% y/y.

In 4Q21 disbursements of mortgage loans reached PLN2.8bn (the record quarterly value) and PLN9.75bn in the whole 2021, translating into an exceptionally high annual growth of 46%.

The net value of consumer loans reached PLN15,833mn growing by 4% y/y (-1% q/q). Origination of cash loans rebounded in 2021 reaching the value of PLN5.6bn. The annual growth was high and reached +21% y/y.

Net value of loans to companies amounted to PLN19,058mn as at the end of December 2021 and increased by 4% y/y (+1% q/q) supported by rebound in leasing business (+8% y/y), after a period of deceleration due to adverse effect of the COVID-19 pandemic on new lending to companies.

The structure and evolution of loans to clients of the Group is presented in the table below:

Loans and advances to clients *(PLN million)*	31.12.2021	31.12.2020	Change y/y	30.09.2021	Change q/q
Loans to households	59 545.8	55 248.4	*7.8%*	58 328.7	*2.1%*
- *PLN mortgage loans*	*33 915.8*	*26 273.9*	*29.1%*	*31 752.0*	*6.8%*
- *FX mortgage loans*	*9 797.1*	*13 678.9*	*-28.4%*	*10 653.8*	*-8.0%*
- *of which Bank Millennium loans*	*9 046.6*	*12 690.8*	*-28.7%*	*9 856.7*	*-8.2%*
- *of which ex-Euro Bank loans*	*750.6*	*988.1*	*-24.0%*	*797.1*	*-5.8%*
- *consumer loans*	*15 832.8*	*15 295.6*	*3.5%*	*15 922.9*	*-0.6%*
Loans to companies and public sector	19 057.5	18 390.9	*3.6%*	18 950.9	*0.6%*
- *leasing*	*6 805.5*	*6 303.5*	*8.0%*	*6 657.1*	*2.2%*
- *other loans to companies and factoring*	*12 252.0*	*12 087.4*	*1.4%*	*12 293.8*	*-0.3%*
Net loans & advances to clients	**78 603.3**	**73 639.3**	*6.7%*	**77 279.7**	*1.7%*
Net loans and advances to clients excluding FX mortgage loans	*68 806.2*	*59 960.4*	*14.8%*	*66 625.9*	*3.3%*
Impairment write-offs	2 440.6	2 489.4	*-2.0%*	2 509.0	*-2.7%*
Gross* loans and advances to clients	**81 043.9**	**76 128.7**	*6.5%*	**79 788.7**	*1.6%*

(*) Including, besides provisions for credit risk, also fair value adjustment of loan portfolio presented in fair value as well as modification. Includes also IFRS9 initial adjustment. Gross loan portfolio in this case presents value of loans and advances before mentioned provisions and adjustments.

Customers' deposits

The evolution of clients deposits is presented in the table below:

Customer deposits *(PLN million)*	31.12.2021	31.12.2020	Change y/y	30.09.2021	Change q/q
Deposits of individuals	66 022.1	61 874.9	6.7%	64 965.0	1.6%
Deposits of companies and public sector	25 425.4	19 635.6	29.5%	25 285.1	0.6%
Total deposits	91 447.5	81 510.5	12.2%	90 250.1	1.3%

Total deposits amounted to PLN91,448mn as at 31 December 2021 and presented a robust increase by 12% y/y (+1% q/q). Deposits on current and saving accounts increased by PLN8.2bn vs. 31 December 2020 (or by 12%).

Deposits of individuals reached PLN66,022mn as on 31 December 2021, growing 7% y/y and 2% q/q. Current and saving accounts of individuals continued to grow at a considerable pace (up 11% y/y) whereas term deposits dropped 11% y/y. The share of current accounts and saving accounts in total deposits of individuals increased to 85% as at the end of December 2021 from 81% as at the end of 2020.

Total deposits of companies and public sector reached PLN25,425mn as at the end of December 2021 and grew strongly by 29% y/y. This considerable growth was partly due to a low base effect as term deposits of companies decreased materially in 4Q20, nevertheless current accounts deposits keep strong growth rate: +18% y/y in December 2021.

LIQUIDITY, ASSET QUALITY AND SOLVENCY

The liquidity position of Bank Millennium Group remained very strong during 2021. LCR ratio reached the level of 150% at the end of year, well above the 100% minimum. Loan-to-deposit ratio remained at secure level of 86% and the share of liquid securities (mainly treasury bonds and NBP bills) in the Group's total assets remains significant at 17%.

Share of impaired loans, including stage 3 portfolio and POCI Assets (Purchased or Originated Credit Impaired) in default, in total loan portfolio was at the end of December 2021 on the level of 4.39%. This means a decrease from 4.95% a year ago. It should also be noted that the evolution of this indicator throughout the year showed a stable and even decline (March 2021 – 4.85%, June 2021 – 4.71% and September – 4.65%). This is largely due to the Group's sales and write-offs policy of impaired portfolio. Thus, the Group still enjoys one of the best asset quality among Polish banks. Share of loans past-due more than 90 days in total portfolio has also decreased during last year from 2.74% in 2020 to 2.27% in December 2021.

Coverage ratio of impaired loans, now defined as relation of all risk provisions for stage 3 loans and POCI in default, has increased during the year from 66% in December 2020 to 69%. Coverage by total provisions of loans past-due more than 90 days also increased from 119% one year ago to 133% at the end of 2021. Both these ratios improved despite the elimination from the Group's loans portfolio in 2021 of appr. PLN345M of receivables covered of provisions with 100% (write-off).

The evolution of main indicators of the Group's loan portfolio quality is presented below:

Group loans quality indicators	31.12.2021	31.12.2020
Total impaired loans (PLN million)	3 557	3 792
Total provisions (PLN million)	2 441	2 489
Impaired over total loans ratio (%)	**4.39%**	**4.95%**
Loans past-due over 90 days /total loans (%)	2.27%	2.74%
Total provisions/impaired loans (%)	**68.6%**	**65.7%**
Total provisions/loans past-due (>90d) (%)	132.6%	118.8%

(*) Purchase Price Allocation (PPA) implied consolidation of Euro Bank impaired (stage 3) portfolio at net value

Impaired loan ratios by segment show a downtrend both in the retail portfolio from 4.9% to 4.55% (including mortgage portfolio had a decreasing characteristic from 2.48% to 2.17%), as well as in the corporate portfolio, in which the ratio decrease during the year from 5.11% to 3.86% (in leasing portfolio reported decrease equalled to 1.31pp while for the rest of corporate portfolio it was 1.19pp). Last year, the value of foreign currency mortgage loans (deducted by allocated provisions) decreased as much by app. 30% year-on-year (in PLN terms). Additionally, it should be noted that ex-Euro Bank mortgage portfolio, in amount app PLN1 billion, enjoys a guarantee and indemnity from Société Genérálé. Excluding this portfolio, the share of FX mortgage loans in the total loan portfolio fell from 17.4% to 11.4%. The improvement in the currency structure of the mortgage loan portfolio was supported by a significant increase in sales of loans in PLN.

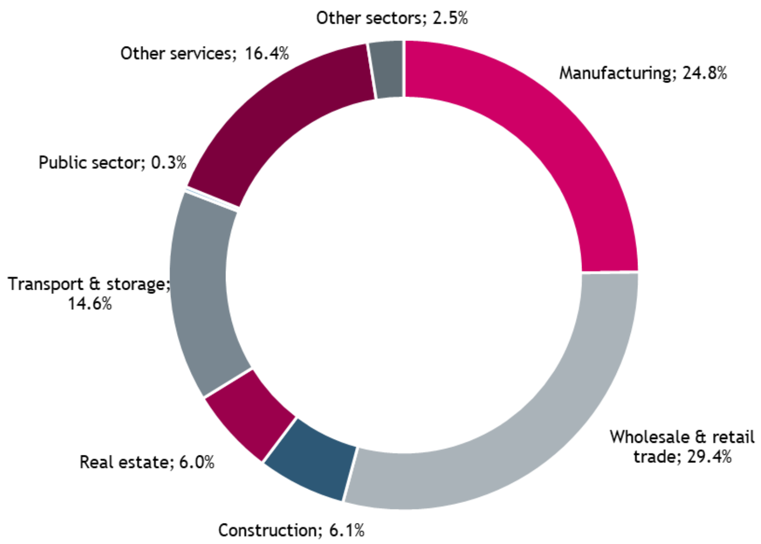
The evolution of the Group's loan portfolio quality by main products groups:

Portfolio quality by products:	Loans past-due > 90 days ratio		Impaired loans Ratio	
	31.12.2021	31.12.2020	31.12.2021	31.12.2020
Mortgage	*0.90%*	*1.00%*	*2.17%*	*2.48%*
*Other retail**	*6.57%*	*7.30%*	*10.37%*	*10.70%*
Total retail clients*	2.54%	2.86%	4.55%	4.90%
Leasing	*1.29%*	*2.16%*	*3.16%*	*4.47%*
Other loans to companies	*1.42%*	*2.44%*	*4.27%*	*5.46%*
Total companies	1.38%	2.34%	3.86%	5.11%
Total loan portfolio	**2.27%**	**2.74%**	**4.39%**	**4.95%**

(*) incl. Microbusiness, annual turnover below PLN 5 million

The Group's portfolio is characterised by appropriate diversification, both due to the concentration of the largest exposures and due to the concentration in sectors of the economy. Participation of The 10 largest exposures remain at a safe, low level of 4.5% (decrease in 2021 from 5.0% at the end of 2020).

The share of main sectors in the Group's portfolio is presented in the chart below:



In 4Q21, capital ratios of the Group decreased compared to the 3Q21: TCR stood at 17.06% and CET1 at 13.97%. This was driven mainly by the 7.5% decrease of own funds (mainly provisions created for legal risk). Minimum regulatory ratios requirements also fell by 56 bps for TCR and 43 bps for CET1 At the same time, the level of risk-weighted assets went down by 1.5%.

Main capital adequacy and liquidity ratios:

Main capital and liquidity indicators * (PLN million)	31.12.2021	30.09.2021	31.12.2020
Risk-weighted assets (RWA) for Group	49 442.8	50 220.0	51 138.0
Risk-weighted assets (RWA) for Bank	48 895.7	49 721.7	50 757.4
Own funds requirements for Group	3 955.4	4 017.6	4 091.0
Own funds requirements for Bank	3 911.7	3 977.7	4 060.6
Own Funds for Group	8 436.3	9 123.8	9 969.0
Own Funds for Bank	8 397.1	8 957.8	9 726.6
Total Capital Ratio (TCR) for Group	**17.06%**	**18.17%**	**19.49%**
Total Capital Ratio (TCR) for Bank	17.17%	18.02%	19.16%
Tier 1 ratio for Group	**13.97%**	**15.12%**	**16.50%**
Tier 1 ratio for Bank	14.04%	14.94%	16.15%
Common Equity Tier 1 (=T1) ratio for Group	**13.97%**	**15.12%**	**16.50%**
Common Equity Tier 1 (=T1) ratio for Bank	14.04%	14.94%	16.15%
Liquidity Coverage Ratio (LCR) for Group	**149.53%**	**183.99%**	**160.79%**

(*) Capital ratios are calculated according to transitional arrangements mitigating the impact of IFRS9 implementation on CET 1 capital.

Minimum required level of capital include:

- Pillar II RRE FX buffer - KNF recommendation to maintain additional own funds for the coverage of additional capital requirements to secure the risk resulting from FX mortgage loans granted to households, in line with art. 138.1.2a of Banking Act. A value of that buffer is defined for banks by KNF every year as a result of Supervisory review and Evaluation process (SREP) and relates to risk that is in KNF's opinion - inadequately covered by minimum own funds requirements, set in CRR art. 92. At present, the buffer was set by KNF in recommendations issued in the end of 2021 in the level of 2.82pp (Bank) and 2.79pp (Group) as for Total Capital Ratio (TCR), which corresponds to capital requirements over Tier 1 ratio of 2.11pp in Bank and of 2.09pp in Group, and which corresponds to capital requirements over CET 1 ratio of 1.58pp in Bank and 1.56pp in Group.
- Combined buffer – defined in Act on macroprudential supervision over the financial system and crisis management – that consists of:
    - Capital conservation buffer at the level of 2.5%.
    - Other systemically important institution buffer (OSII) – at the level of 0.25%, and the value is set by KNF every year.
    - Systemic risk buffer at the level of 0% from March 2020.
    - Countercyclical buffer at the 0% level.